

BUDGET LETTER

		NUMBER: 04-32
SUBJECT: 2005-06 PRICE INCREASE AND MERIT SALARY ADJUSTMENTS		DATE ISSUED: September 30, 2004
REFERENCES: BUDGET LETTERS 04-07 AND 04-22; GOVERNMENT CODE SECTION 13308.05		SUPERSEDES:

TO: Agency Secretaries
Department Directors
Departmental Budget Officers
Departmental Accounting Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

Previous Budget Letters (BL) issued (BL 04-07 and BL 04-22) have indicated that funding for price increase would not be provided in the 2005-06 Proposed Governor's Budget. However, in order to prepare a workload budget as defined in Government Code Section 13308.05, the Department of Finance (Finance) has determined that departmental budgets should include, as baseline adjustments, funding for price increase.

Although funding for price increase is being provided in the 2005-06 Governor's Budget as a baseline adjustment, departments are reminded that a structural deficit is projected in the 2005-06 fiscal year barring further corrective action. Additional policy adjustments will be required to close the projected year-end funding gap for the 2005-06 fiscal year.

Government Code Section 13308.05 authorizes a baseline adjustment for price increase in the budget year only. The base that departments are to use for purposes of calculating the price increase adjustment is total operating expenses and equipment expenditures authorized in the 2004 Budget Act adjusted for major one-time expenditures. Departments may then apply to this base amount the U.S. State and local implicit deflator of 2.6 percent. If departments can justify that another methodology may be more appropriate in calculating their budget year price increase, they should contact their Finance Budget Analyst.

In order for these adjustments to be included in the Planning Estimates as baseline adjustments, departments must provide the adjustment for price increase along with any necessary back-up information to their respective Finance Budget Analysts by October 15, 2004. The back-up information must also include a split of the price increase by item of appropriation.

Government Code Section 13308.05 also includes funding for Merit Salary Adjustments (MSAs) in the definition of a workload budget. However, savings result when positions return to bottom step after staff promotions or departures, which are available to pay for the costs of MSAs. Therefore, departmental budgets already include sufficient funding for this purpose, and no baseline adjustments will be made.

If you have any questions regarding this BL, please call your Finance Budget Analyst.

/s/ Michael C. Genest

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